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ACHIEVING MARKET EQUILIBRIUM: HOW DEMAND, SUPPLY, AND ELASTICITY SHAPE PRICES

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ABSTRACT

This article covers methods of price determination according to the law of supply and demand, as well as the concept of elasticity and its types. In a market economy, price formation occurs as a result of the interaction between supply and demand. While the quantity of demand is determined through consumers' attitude toward the price of goods, supply determines the volume of goods brought to market by producers. From this perspective, the article analyzes methods of setting prices at equilibrium levels, and factors affecting changes in supply and demand. Additionally, the concept of elasticity is explained as an economic indicator that shows how much supply and demand change in response to changes in price, income, or other factors. Information is provided about the main types of elasticity - price elasticity, income elasticity, and cross elasticity of substitute goods..

Introduction. Elasticity is one of the important concepts in economics, showing the degree of influence of one economic indicator on another variable. The concept of elasticity and its types are also an important part of this. In the future, methods of price determination according to the law of supply and demand will also be discussed.

The concept of elasticity and its types: Elasticity mainly shows how much demand or supply changes as a result of a 1 percent change in a variable (such as price or income). It is measured by the elasticity coefficient, which indicates how sensitive the variables are to each other. ***Types of elasticity:*** Price elasticity: shows the change in demand or supply with price changes. Income elasticity: determines how changes in income lead to changes in demand. Absolute elasticity: the specific value of elasticity in a particular situation. ***Based on the type and value of elasticity, they can be classified as follows:*** Elastic goods (elasticity coefficient > 1): demand or supply changes significantly with price changes. Inelastic goods (elasticity coefficient < 1): demand or supply changes little when price changes. Unit elastic goods (elasticity coefficient = 1): the change in demand or supply is equal to the change in price.

Price determination methods are based on the laws of supply and demand, with examples including: Market prices: the equilibrium state of supply and demand determines the price. Taxes and subsidies: methods of economic regulation by the state, which can increase or decrease prices. These concepts and methods serve as the basis for determining prices based on the actions of producers and consumers.

Factors affecting the elasticity of supply and demand. *Factors affecting demand elasticity:* Availability of substitute products: If customers have the opportunity to choose other similar products, demand elasticity will be higher. Importance and necessity of the product: Basic necessities have low demand elasticity because it is difficult to give up buying them. Income level: As income increases, customers become less sensitive to price changes. Market segment and consumer preferences: Elasticity differs in different market segments. Product price: Higher-priced goods have more demand elasticity.

Factors affecting supply elasticity: *Production resource prices:* A decrease in resource prices increases supply, while an increase decreases it. *Production technology:* Technological advancement reduces production costs, increasing supply. *Tax and subsidy policy*: Taxes lead to a decrease in supply, while subsidies lead to an increase. *Number of sellers in the market*: Many sellers increase supply. *Time factor of production:* Sometimes it takes time to produce a product, which reduces supply elasticity.

Additionally, supply and demand elasticity is considered as a measure of sensitivity showing how they respond to price changes.

As a result of these factors, changes in supply and demand affect price dynamics and form market equilibrium.

Methods of price determination according to the law of supply and demand. In a market economy, prices are formed as a result of the interaction between supply and demand. The following main methods of price determination exist:

Demand-based pricing In this method, the price is determined based on how much consumers value a product or service. Example: A company produces a new smartphone and sets the price based on its features, brand, and how it is perceived by consumers.

Supply-based pricing In this method, production costs and required profit are taken into account. Example: If producing a pair of shoes costs 50,000 soums, the company can add 20,000 soums profit and set the price at 70,000 soums.

Competition-based pricing In this method, the price is set based on competitors' prices in the market. Example: If competitors are selling the same product for 100,000 soums, you can also set the price around that amount.

State regulation For some goods and services, prices are set by the state (for example, gas, electricity, utilities). Example: In Uzbekistan, natural gas prices are determined by the State Committee.

The concept of elasticity and its types. Elasticity is a method of measuring the influence of one economic factor (such as price, income) on another factor (such as quantity of demand). Mainly, demand elasticity and supply elasticity are considered.

Demand elasticity This shows how the quantity of demand changes in response to price changes.

Elastic demand (E > 1): When the price changes slightly, demand changes significantly. Example: If the price of ice cream increases by 10%, demand decreases by 20%.

Inelastic demand (E < 1): When the price changes, demand hardly changes. Example: If the price of medicines increases, people still buy them.

Unit elastic demand (E = 1): The change in price and demand is equal. Example: If the price increases by 10%, demand also decreases by 10%.

Supply elasticity This shows how the quantity of supply changes in response to price changes.

Elastic supply (E > 1): When the price increases, producers offer more products. Example: When fruit prices increase, farmers start planting more.

Inelastic supply (E < 1): When the price changes, supply hardly changes. Example: If land prices increase, construction of new houses does not grow quickly.

Income elasticity This shows how demand changes in response to changes in income.

Normal goods (E > 0): When income increases, demand also increases. Example: When income increases, people travel more.

Inferior goods (E < 0): When income increases, demand decreases. Example: When income increases, people give up cheap transportation.

Conclusion. Price determination depends on demand, supply, competition, and state policy. Elasticity, on the other hand, measures the influence of price, income, and other factors, which is important for business and state policy. The foundation of a market economy is maintaining balance between supply and demand. The price determination process plays an important role in ensuring economic stability, as it determines production volume, efficiency of resource use, and consumer behavior. The concept of elasticity is an important tool in economic analysis, as it allows determining the impact of price or income changes on the market. Therefore, deep study of the laws of demand, supply, and elasticity has important theoretical and practical significance for the sustainable development of any economy.

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